

U S WEST, Inc.
Suite 700
1020 Nineteenth Street, NW
Washington, DC 20036
202 429-3133

Glenn Brown
Executive Director-
Public Policy

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USWEST

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SEP 6 - 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

September 6, 1996

William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street N.W., Room 222
Washington, D.C. 20554


RE: CC Docket 96-45

Dear Mr. Caton:

On September 5, 1996 the undersigned met in Jefferson City, Missouri with Kenneth McClure, Commissioner, and Martha Hogarty, staff member of the Federal/State Joint Board on Universal Service. The Attached presentation was used during this meeting.

In accordance with Commissioner Rule 1.1206(a)(1), two copies of the letter are being filed with you for inclusion in the public record. Acknowledgment and date of receipt are requested. A copy of this transmittal letter is provided for this purpose. Please contact me if you have questions.

Sincerely,



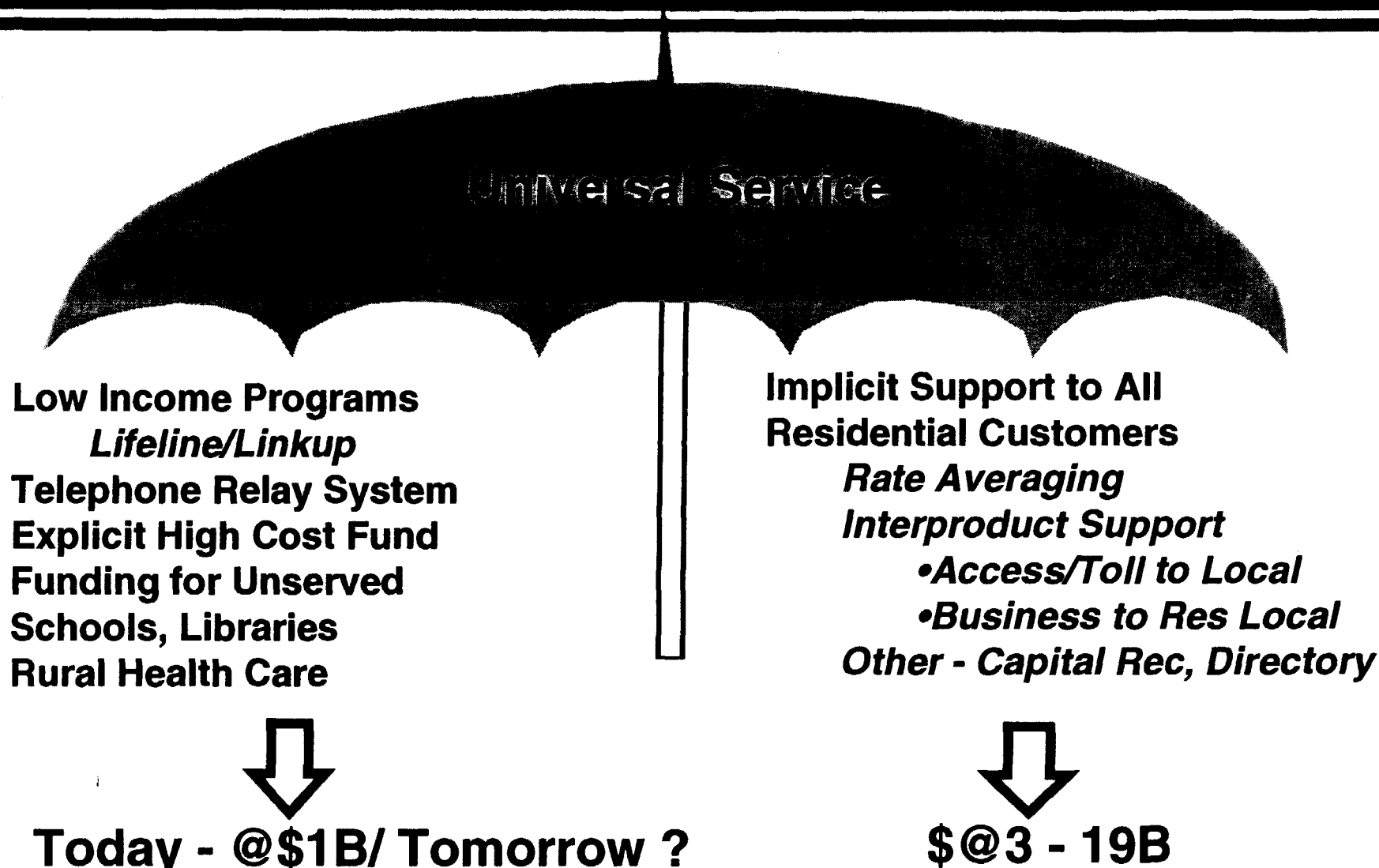
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UNIVERSAL SERVICE

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Executive Director - Public Policy



Actions Necessary to Preserve Universal Service

1. **Rate Rebalance**
 - ✓ Pricing flexibility - Allow competitors and incumbents to compete
 - ✓ Prices more closely aligned with costs and market conditions - Residence rates must be allowed to cover costs.
2. **Properly Structure Interconnection Charges**
 - ✓ Interconnectors must pay their fair share of common, shared and universal service support costs.
3. **Target Support**
 - ✓ Low Income
 - ✓ High Cost
 - ✓ TRS
4. **Restructure Funding**
 - ✓ Make all support explicit
 - ✓ Reform existing support mechanisms where necessary
5. **Establish Transitional Universal Service Fund Until Rate Rebalancing Achieved**

Need to Target High Cost Support to Very Small Geographic Units

- Rural Community wire center with 1,000 Lines
 - 800 Lines in Town at \$20/Mo. Average Cost
 - 200 Lines on Outlying Farms at \$200/Mo.
 - Funding Benchmark at \$30/Mo
- Universal Service Fund Calculation
Wire Center:
Average Cost: 800 Lines X \$20/Line = \$16,000
200 Lines X \$200/Line = \$40,000
Total Cost = \$56,000
Average Cost = \$56/Line/Mo
Universal Service Funding = \$56 - \$30 = \$26/Line/Mo

Census Block Targeting:

Town Customers: Cost \$20/Month - No Benchmark Funding

Farm Customer: \$200 Cost - \$30 Benchmark = \$170/line

U S WEST's Census Block Model better targets high cost funding in a competitive environment. Wire Center targeting could result in new entrants receiving \$6 more than cost for providing service in towns. Also there would be no incentive for new entrants to provide service to the \$200 outlying farm customers because they would only receive \$26 in high cost funds resulting in a \$144 support shortfall.

Proxy Model Evolution

- **U S WEST High Cost Model**
 - 1994
 - Distance & Density
- **Benchmark Cost Model**
 - 1995
 - U S WEST, MCI, NYNEX, Sprint
 - Multiple Cost Factors
 - Relative Cost Of Basic Service
- **Benchmark Cost Model 2**
 - 1996
 - U S WEST, Sprint
 - More Refined Cost Elements
 - Total Cost of Basic Service
- **Best Of Breed Process**
 - Combine Best Aspects
 - Benchmark Cost Model 2
 - Cost Proxy Model (PacTel)
 - Multiple Large Companies

Improvements In BCM2 Over BCM1

- **More Accurate Rural Costs**
 - **Define Populated Areas**
 - **Wireless Alternative Considered**
- **More Accurate Urban Costs**
 - **Include Missing Network Elements**
 - **Include Urban Cost Structures**
 - **More Accurate Distribution Algorithm**
 - **Business Lines Included**
- **More Accurate Expense Calculation**
 - **Investment Related**
 - **Line Related**
- **50 States, DC, Puerto Rico, Virgin Islands, Micronesia**

Projected Fund Size From BCM2

Funding Benchmark

Fund

\$20/Mo.

\$14.7B

30

7.4

40

4.3

50

2.4

60

1.3

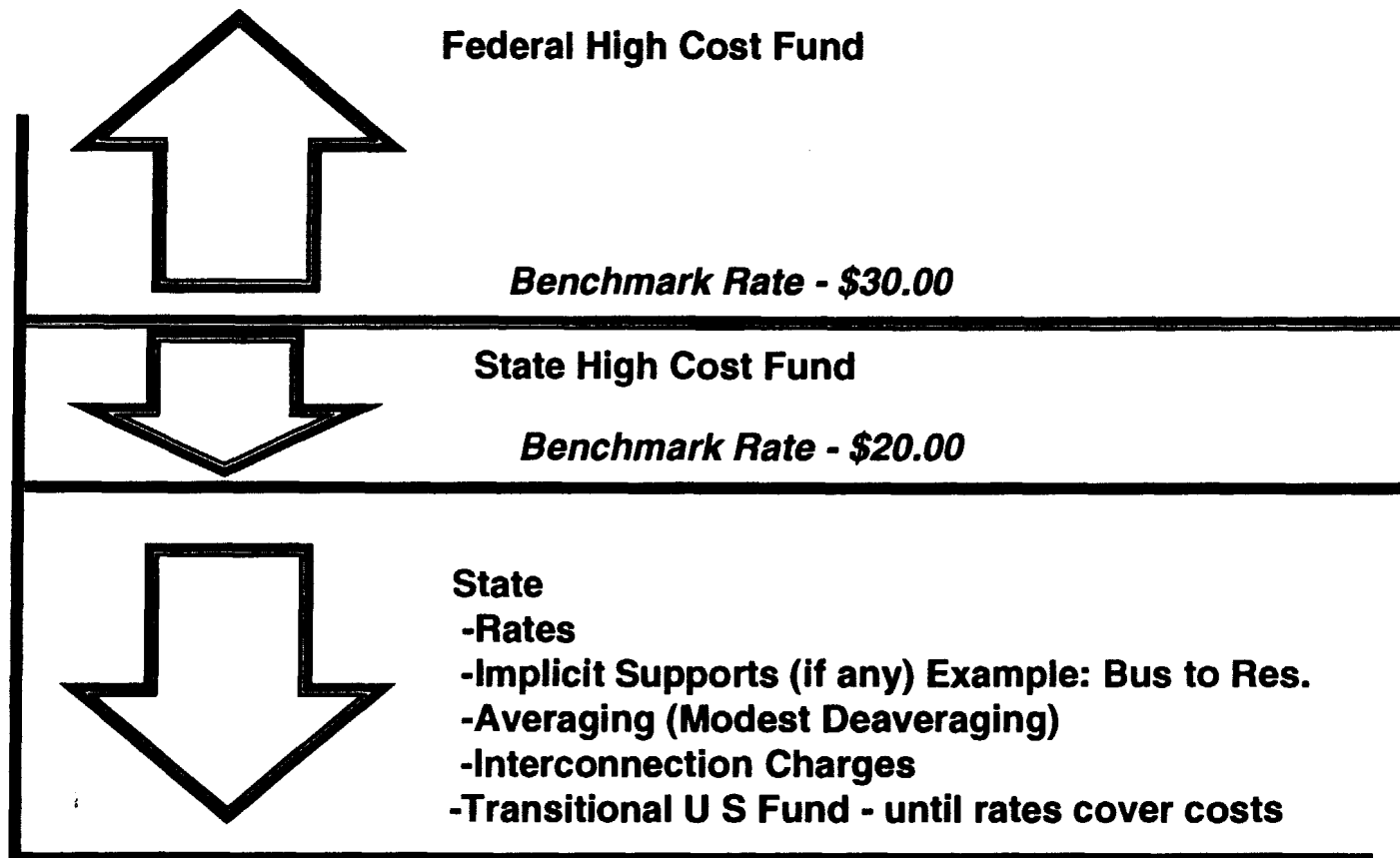
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Benchmark Concept



Incumbent LECs are entitled to full recovery of costs incurred to meet historical and current universal service obligations. This recovery should be through a combination of federal and state price levels and explicit high cost funds.

Funding Should Be Broadly Based

- ✓ **Broad base will reduce disparities among competitors**
- ✓ **A USF charge should apply to services or products provided by, among others, the local exchange companies; interexchange carriers; mobile telephone and radio communications companies (including cellular, PCN, and radio common carriers); on-line services; cable companies providing telecommunications services; competitive access providers; resellers of telecommunications; telecommunications customers of private networks; etc.**

Calculation of Surcharge Example

\$15B Fund Size (High Cost and Education)

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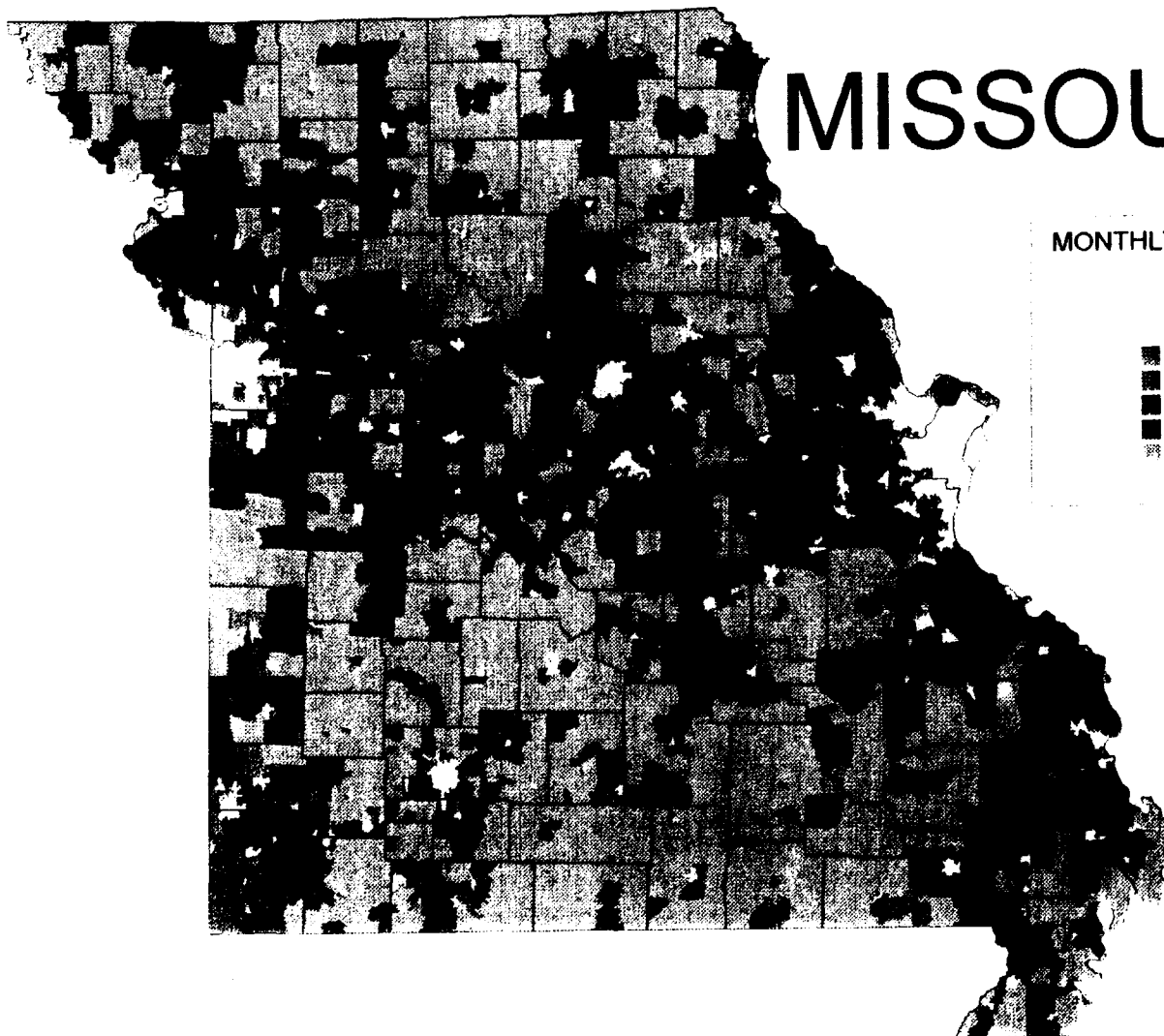
8.5% USF Charge

\$176.2B Total Retail Revenues

(Source: North American Telecommunications Association
"Telecommunications Market Review and Forecast")

***The broader the base the smaller the USF
charge***

MISSOURI



MONTHLY COST NO OF BGs

< \$20	(519)
\$20 to \$30	(2005)
\$30 to \$40	(927)
\$40 to \$50	(320)
\$50 to \$60	(390)
\$60 to \$70	(265)
\$70 to \$80	(253)
> \$80	(484)

RURAL CENSUS BLOCK GROUPS

CHARLESTON MISSOURI

LEGEND

 CENSUS BLOCK GROUP

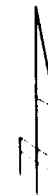
 CENTRAL OFFICE

 LOW DENSITY
< 20 HH / SQ MILE

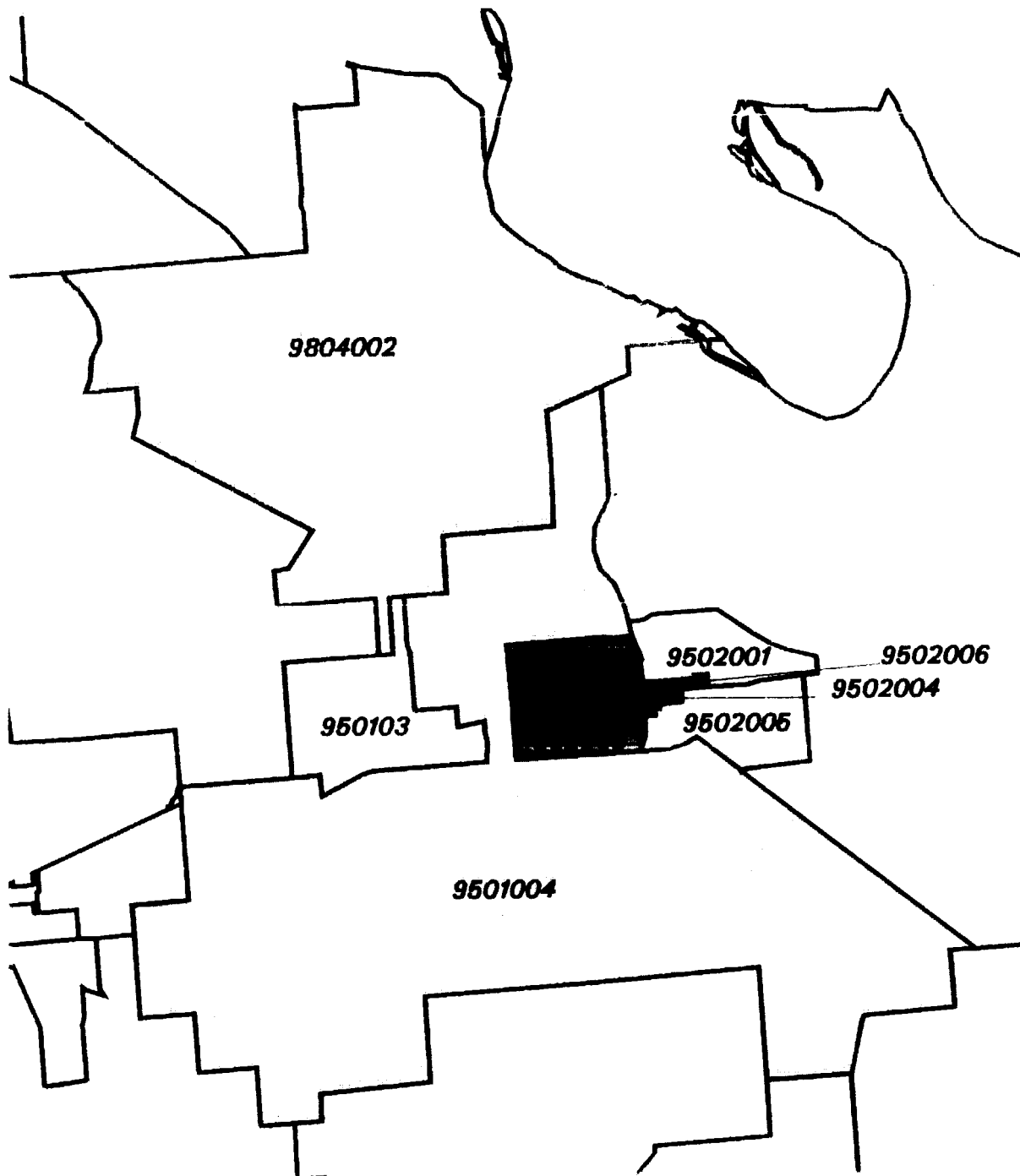
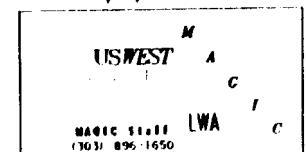
 MEDIUM DENSITY
20-100 HH / SQ MILE

 HIGH DENSITY
100+ HH / SQ MILE

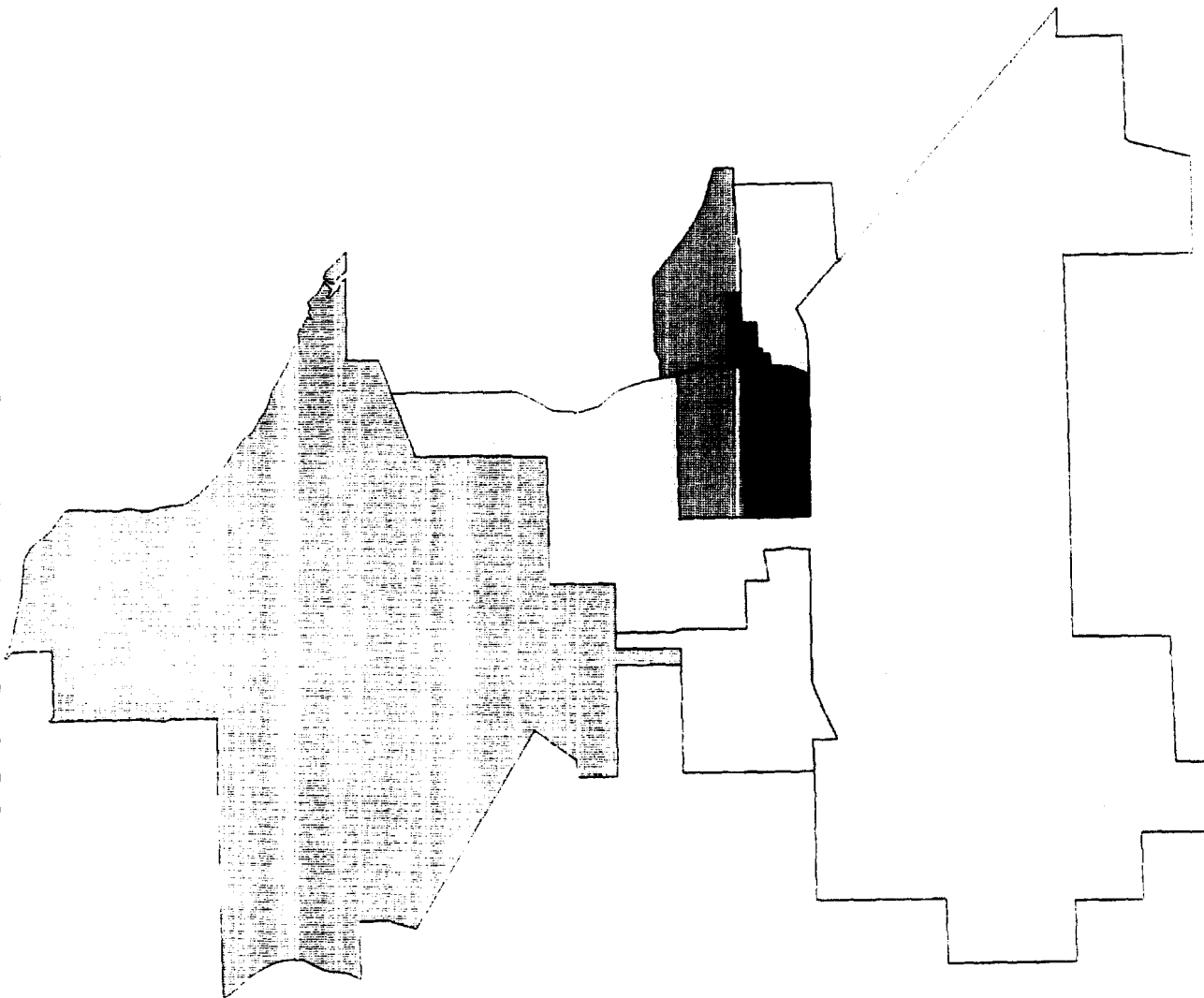
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09/03/96



CHARLESTON, MISSOURI - BCM II MONTHLY COST STRATIFICATION BY 1990 CENSUS BLOCK GROUP



LEGEND

	NO POPULATION
	< = \$20.00
	\$20.01 - \$30.00
	\$30.01 - \$40.00
	\$40.01 - \$50.00
	\$50.01 - \$60.00
	\$60.01 - \$70.00
	\$70.01 - \$80.00
	\$80.01 +

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MAGIC 11111 800-1650












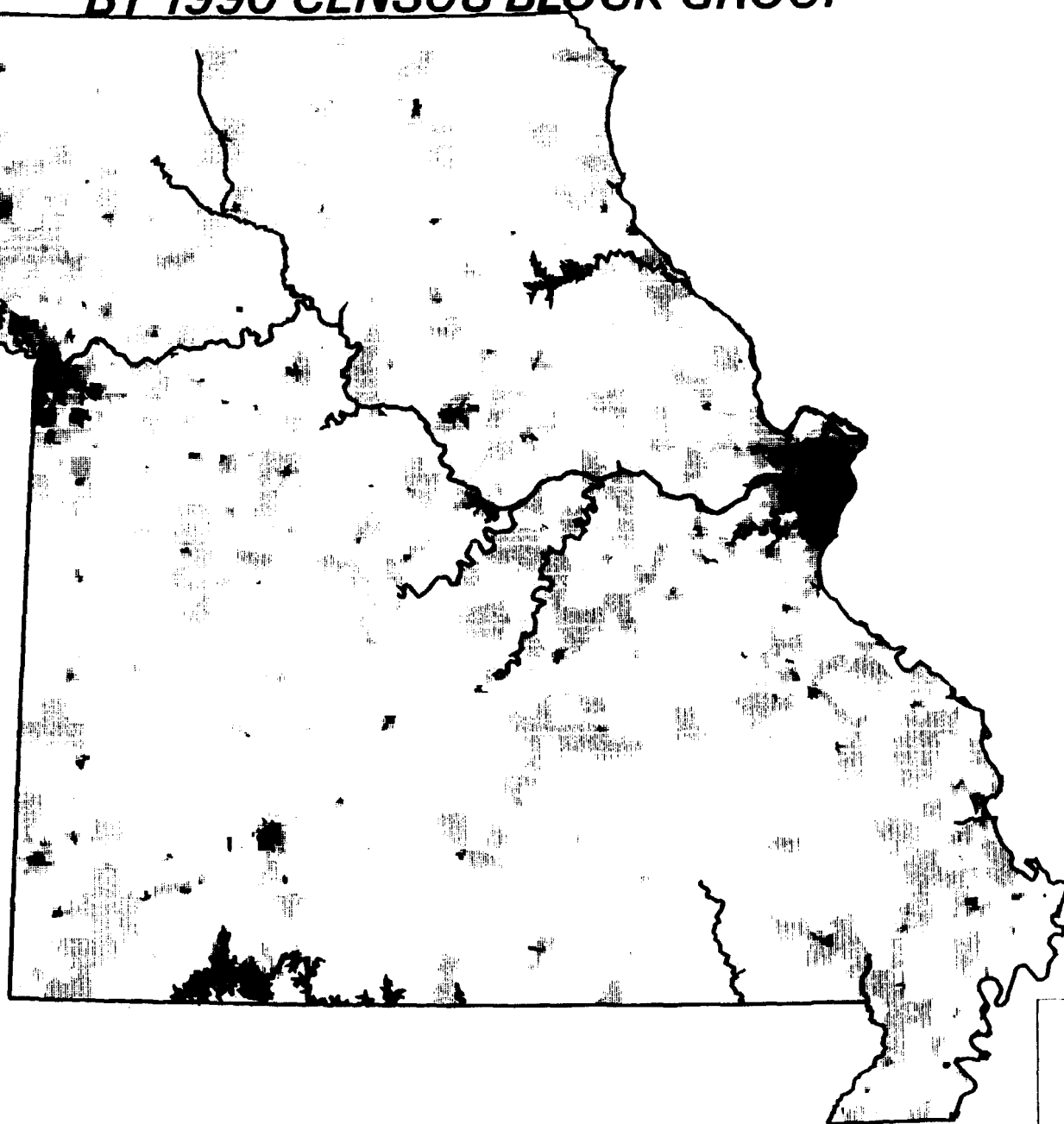
MONTHLY COST NO OF BGs

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<input type="checkbox"/>	\$30 to \$40	(927)
<input checked="" type="checkbox"/>	\$40 to \$50	(320)
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<input type="checkbox"/>	\$70 to \$80	(253)
<input type="checkbox"/>	> \$80	(484)

MISSOURI - BCM II MONTHLY COST STRATIFICATION BY 1990 CENSUS BLOCK GROUP

LEGEND

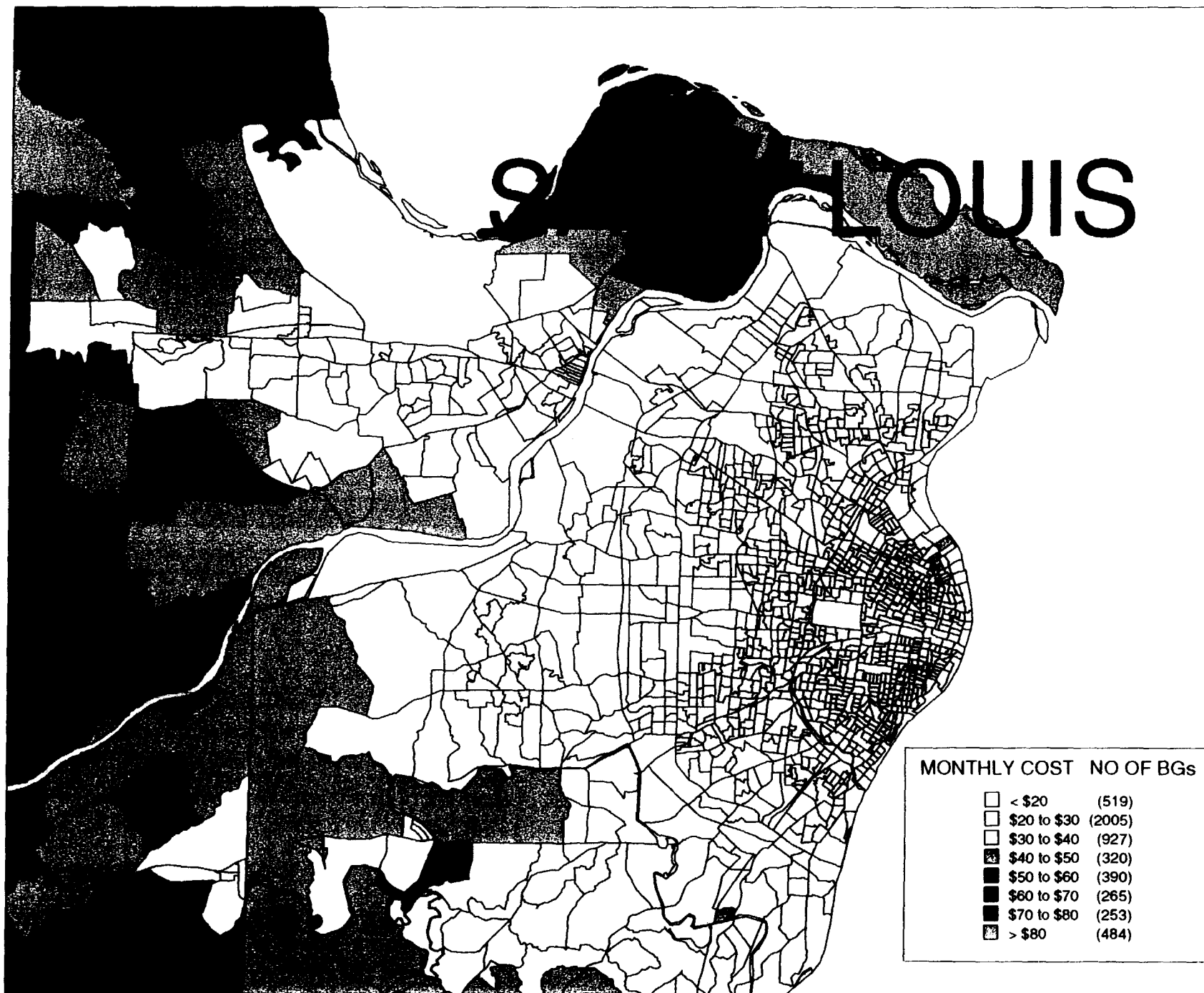
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	\$60.01 - \$70.00
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	\$80.01 +

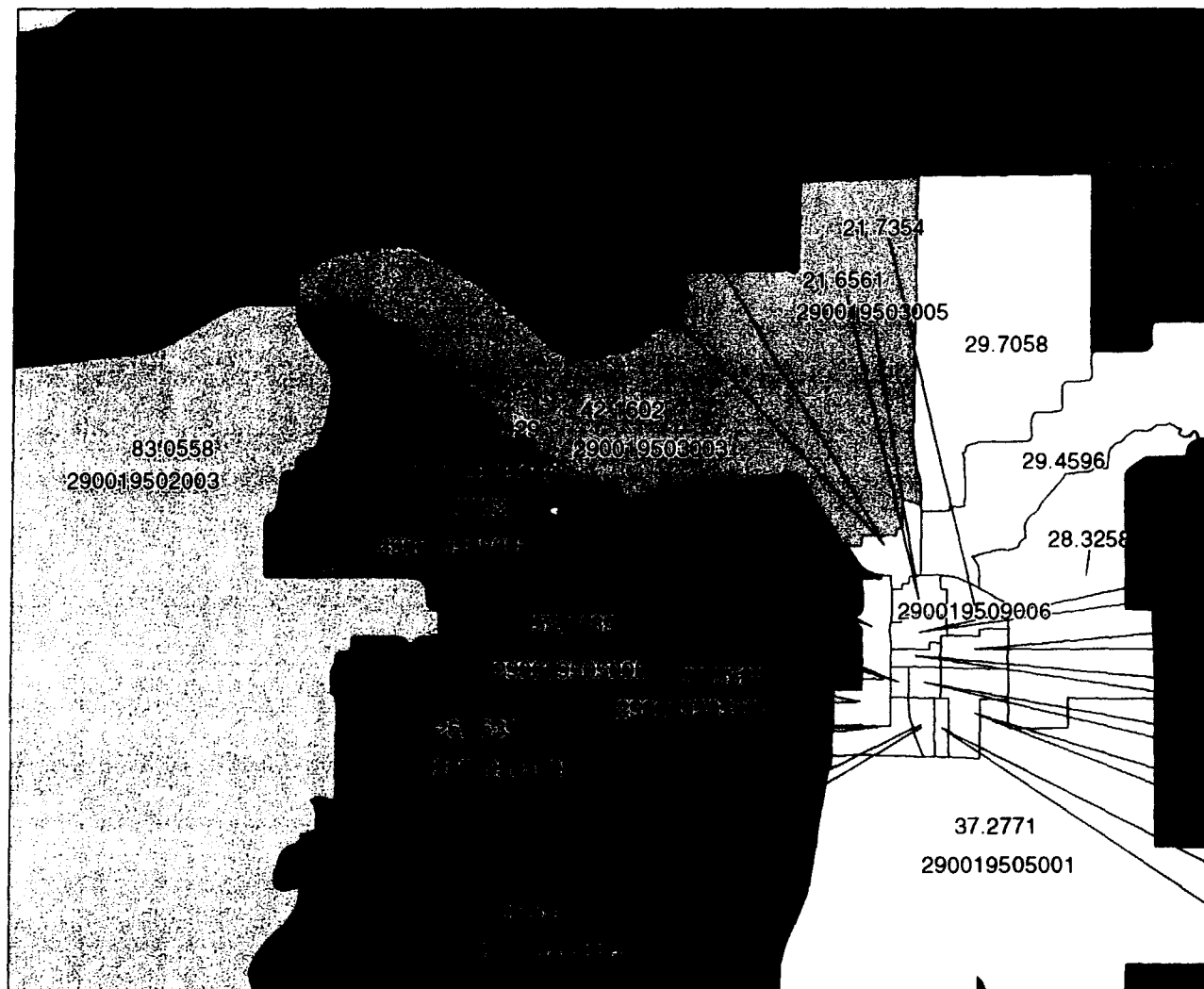


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(303) 896-1650		

ST. LOUIS














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